MONTHLY Communique

February 2018

Update on Markets and Budget Implications

The Finance Budget of the Government of India has introduced long term capital gains tax at the rate of 10% on gains from sale of equity assets held over a period of one year with a caveat of grandfathering of prices as at 31st January 2018.

If we had our way thinking from investors' perspective because we ourselves are our biggest equity investor; we would have loved to have continuance of the holiday on capital gains tax, but considering national imperatives if a tax indeed had to be introduced, then we believe this was probably the best way of doing so. In the past there has been discontent on implementing policy changes which impact investments made in an older tax regime with no view on what could come up in future. But the budget is clear that all gains made by investing in the past all the way upto the highest price on the day of January 31, 2018 are not to be taxed. The tax will be applicable only on the gains from the highest price of January 31, 2018 or the cost, whichever is higher and only on gains of over Rs 1 lac in a financial year.

The markets have not reacted too well to this announcement. It is difficult to isolate how much of the market reaction is towards the introduction of tax and how much of it is because of fiscal slippage and resultant rise in bond yields in India, or because of a global correction in response to rise in US bond yields and imminent Fed action to move on inflationary expectations. Few things that we would like to submit for investors' consideration:

1) Taxes are an outcome; an outcome only if one has a gain. In many ways, a happy problem to have. This means the returns come first and tax comes later. After this tantrum in the market, investors will eventually go back to evaluating investments based on their relative return potential.

2) Even before this budgetary announcement came in, the markets were perceived to be over-valued and they were priming for a correction. When this is the state in the market, any trigger can cause a much-anticipated correction and talking of triggers we can't have our choice of what's a nice trigger and what's not a nice trigger. Usually a trigger that makes the market correct significantly is one which impairs growth potential of the underlying investment. It's very rare one gets a correction basis a trigger which only impacts the tax on the outcomes and not the potential outcomes itself. To that extent, let's just call this a market tantrum like a teenager would when they don't have their way.

3) Yes; growth potential can be impacted if the macro turns challenging with rising rates and the US scenario, there is increasing credence being given to such narrative and we cannot turn a blind eye to the changing macro. But having said that, how to position portfolios is a key aspect. We believe the budget has done enough to spur growth in sectors that we tend to own as pre-dominant positions in our portfolios. In the background the economy is improving and corporate results have surprised on the positive. We believe that when the dust settles, there will be

(Continued overleaf)

returns to be made and what we are witnessing now and may do so for another few days, will present good opportunities.

4) In the last 6 months we have received concerns relating to underperformance vis-à-vis benchmark indices where we had sent a note dated Nov 30, 2017 explaining that we have been underperforming due to high quality high growth focus whereas in the market high beta, cheap, contrarian, cyclicals and deep value ideas like PSU Banks, Metals, Telecom, Real Estate etc. have been flying. From our investors' perspective this huge beta correction in indices would eventually ensure we close the underperformance and start gaining alpha because whatever the budget has done is beneficial to our portfolio positions.

5) **Lastly on the markets, our past experience shows that whenever the market corrects due to global concerns and Foreign Investors (FII) selling, eventually when the dust settles they buy back more than what they sold because the impact of global events on domestically oriented Indian companies is very limited and if at all, its short term. Our portfolio strategies are typically 60-70% domestic economy centric.**

Moving forward, this note elucidates on the implications for our investors. Investors participate by way of direct equities, PMS, AIFs and Mutual Funds when it comes to investing in equities. While the budget documents and the Honorable Finance Minister's speech deals with just introduction of tax, there are different implications for each mode of investing depending on who is the underlying investor and what is the corporate structure of the vehicle of investment.

Mutual Funds continue to be an attractive proposition considering that they are sheltered entities and buying and selling within the fund done by fund managers doesn't attract capital gains taxes. In the past even redemption of funds after a year did not attract capital gains tax. To that extent there is a change from here because now there will be 10% tax on gains at the time of redemption.

Direct investing into equity, investing via PMS and AIF have similar implications except that in an AIF the fund settles the tax and investors receive “tax-paid” returns whereas investing directly into equity in one's own account or investing via PMS is absolutely the same. In the past these had to pay short term capital gains tax if there was any sale of shares done in a period under one year from date of purchase. There was no tax to be paid on gains made one year from the date of purchase. Now there will be a 10% tax levied on sale transactions on the capital gains for holding period even in excess of 1 year from date of purchase. On the other hand, PMS and AIF and direct equity now have one important avenue opening up which was not possible in the past. While there is tax on long term gains, that means we will be able to use any long term losses to offset these gains.

When investors compare long term capital gain taxation on Mutual Funds with direct equity or PMS the broad implication of taxation is similar. In MFs the tax implication is point to point from cost of investment to redemption or maturity, whereas in direct equity or PMS the tax implication is at each sale transaction but the point to note is that while reinvesting the cost of purchase of new transaction increases and the future tax will be on the gains from the new cost of purchase.

Yours Sincerely,

Aashish P Somaiyaa
CEO

Value Strategy

Strategy Objective

The Strategy aims to benefit from the long term compounding effect on investments done in good businesses, run by great business managers for superior wealth creation.

Investment Strategy

- Value based stock selection
- Investment Approach: Buy & Hold
- Investments with Long term perspective
- Maximize postt ax return due to Low Churn

Details

Fund Manager	:	Shrey Loonker
Co-fund Manager	:	Kunal Jadhwani
Strategy Type	:	Open ended
Date of Inception	:	24th March 2003
Benchmark	:	Nifty 50 Index
Investment Horizon	:	3 Years +
Subscription	:	Daily
Redemption	:	Daily
Valuation Point	:	Daily

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	46.50
Auto & Auto Ancillaries	19.56
Oil & Gas	10.34
FMCG	6.55
Engineering & Electricals	5.81
Pharmaceuticals	5.61
Cash	0.12

Data as on 31st January 2018 *Above 5% & Cash

Top 10 Holdings

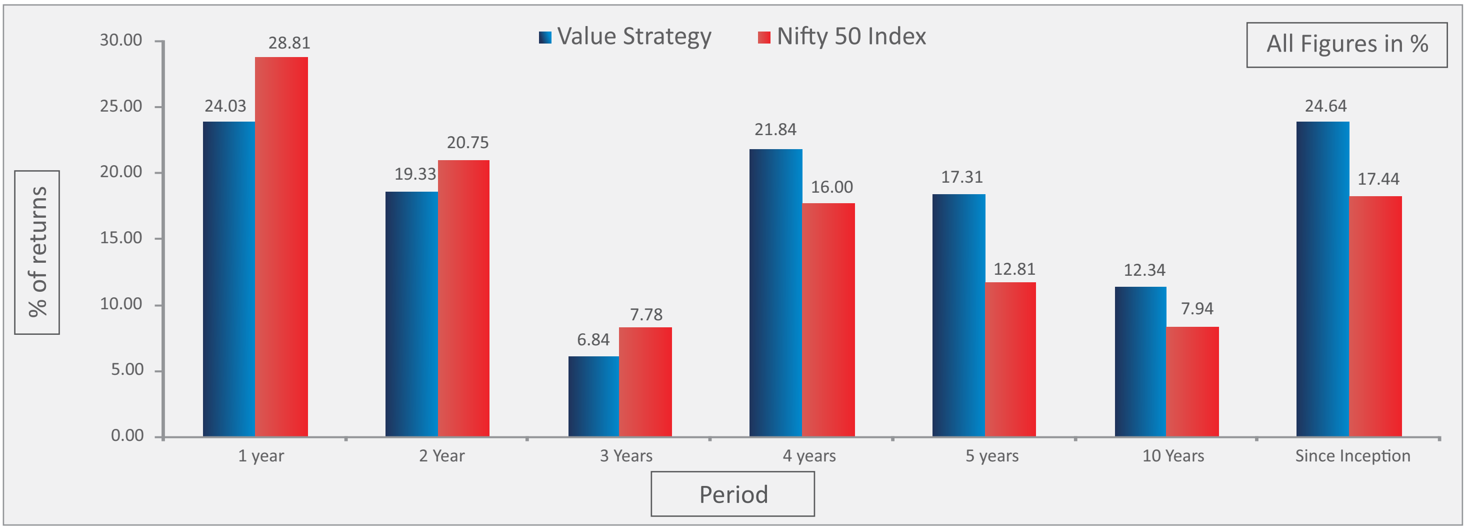
Particulars	% Allocation
HDFC Bank Ltd.	10.61
Bharat Petroleum Corporation Ltd.	8.19
Kotak Mahindra Bank Ltd.	8.09
Asian Paints Ltd.	6.55
AU Small Finance Bank Ltd.	6.43
Bharat Forge Ltd.	6.19
Larsen & Toubro Ltd.	5.81
HDFC Ltd.	5.77
Eicher Motors Ltd.	5.73
Sun Pharmaceuticals Ltd.	5.61

Data as on 31st January 2018

Key Portfolio Analysis

Performance Data (Since Inception)	Value Strategy	Nifty 50
Standard Deviation (%)	20.77%	22.98%
Beta	0.82	1.00

Data as on 31st January 2018



The Above strategy returns are of a Model Client. Returns of individual clients may differ depending on factors such as time of entry/exit/ additional inflows in the strategy. The Above returns are calculated on NAV basis and are based on the closing market prices as on 31st January 2018. Past performance may or may not be sustained in future. Returns above 1 year are annualized. Please refer to the disclosure document for further information.

Next Trillion Dollar Opportunity Strategy

Strategy Objective

The Strategy aims to deliver superior returns by investing in stocks from sectors that can benefit from the Next Trillion Dollar GDP growth.

It aims to predominantly invest in Multi Cap stocks with a focus on identifying potential winners that would participate in successive phases of GDP growth.

Investment Strategy

- Stocks with Reasonable Valuation
- Concentration on Emerging Themes
- Buy & Hold Strategy

Details

Fund Manager : Manish Sonthalia
Strategy Type : Open ended
Date of Inception : 11th December 2007
Benchmark : Nifty 500
Investment Horizon : 3 Years +
Subscription : Daily
Redemption : Daily
Valuation Point : Daily

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	32.30
FMCG	16.40
Auto & Auto Ancillaries	14.21
Diversified	13.70
Oil & Gas	6.72
Cash	0.11

Data as on 31st January 2018 *Above 5% & Cash

Top 10 Holdings

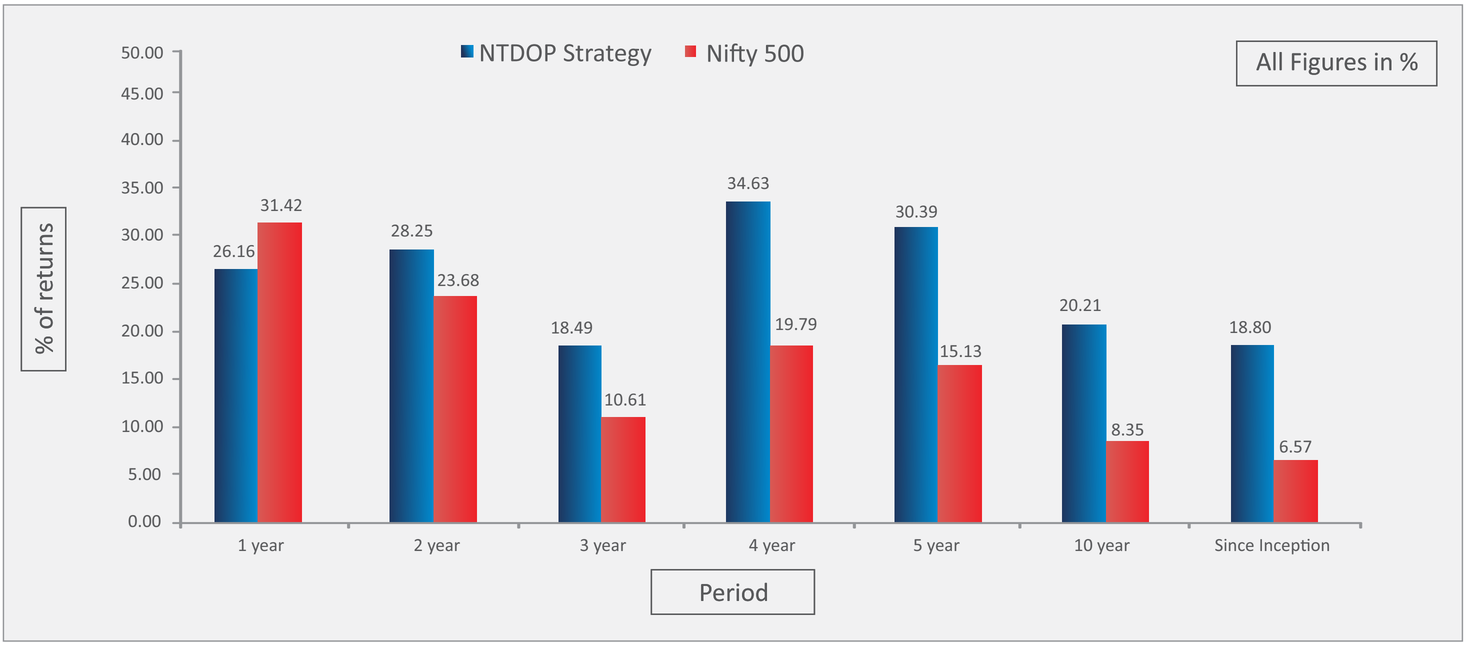
Particulars	% Allocation
Kotak Mahindra Bank Ltd.	11.64
Voltas Ltd.	9.50
Page Industries Ltd.	8.52
Bajaj Finance Ltd.	8.22
Eicher Motors Ltd.	5.86
Max Financial Services Ltd.	4.65
Bosch Ltd.	4.43
Godrej Industries Ltd.	4.20
Hindustan Petroleum Corporation Ltd.	4.08
City Union Bank Ltd.	4.05

Data as on 31st January 2018

Key Portfolio Analysis

Performance Data (Since Inception)	NTDOP	Nifty 500
Standard Deviation (%)	18.02%	21.84%
Beta	0.68	1.00

Data as on 31st January 2018



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India Opportunity Portfolio Strategy

Strategy Objective

The Strategy aims to generate long term capital appreciation by creating a focused portfolio of high growth stocks having the potential to grow more than the nominal GDP for next 5-7 years across market capitalization and which are available at reasonable market prices.

Investment Strategy

- Buy Growth Stocks across Market capitalization which have the potential to grow at 1.5 times the nominal GDP for next 5-7 years.
- BUY & HOLD strategy, leading to low to medium churn thereby enhancing post-tax returns

Details

Fund Manager	: Mr. Manish Sonthalia
Co-Fund Manager	: Ms. Mythili Balakrishnan
Strategy Type	: Open ended
Date of Inception	: 11th Feb. 2010
Benchmark	: Nifty Free Float Midcap 100
Investment Horizon	: 3 Years +
Subscription	: Closed
Redemption	: Daily
Valuation Point	: Daily

Top Sectors

Sector Allocation	% Allocation*
Banking & Finance	27.27
Cement & Infrastructure	13.88
Pharmaceuticals	12.13
Oil and Gas	11.53
Consumer Durable	9.92
Services	7.55
Auto & Auto Ancillaries	5.90
Cash	0.18

Data as on 31st January 2018 *Above 5% & Cash

Top 10 Holdings

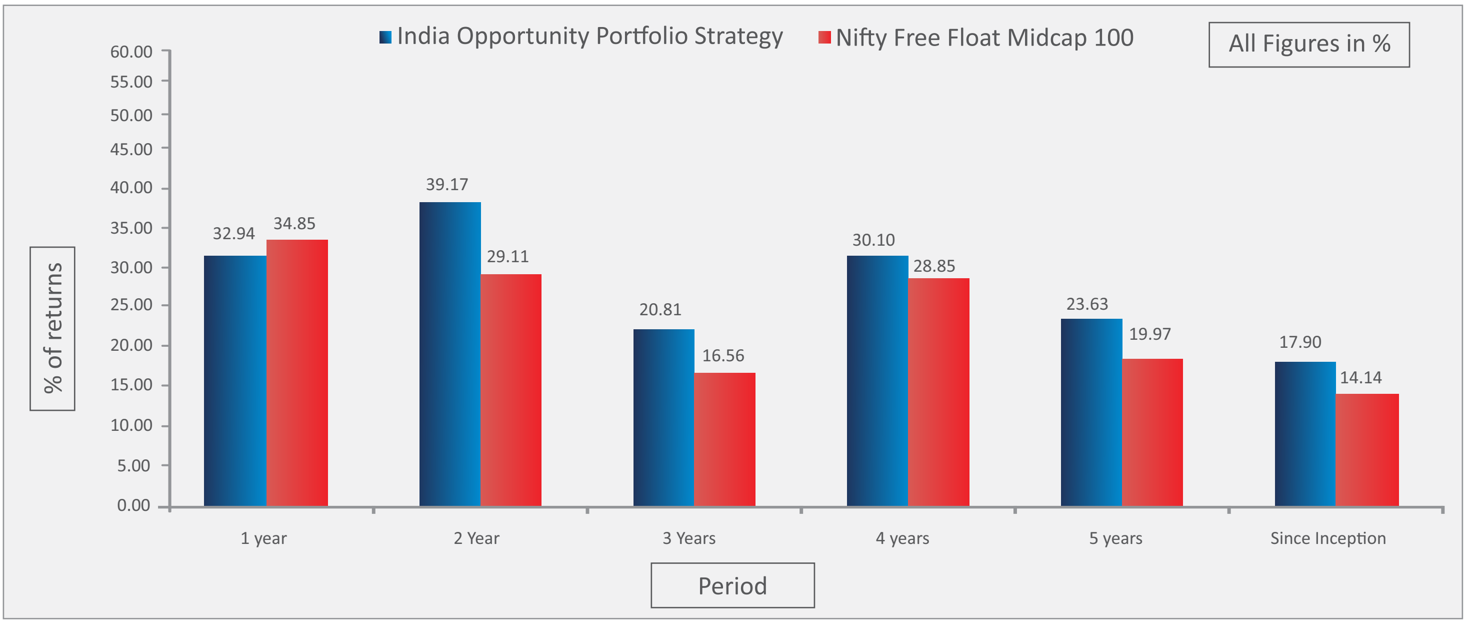
Particulars	% Allocation
Birla Corporation Ltd.	10.12
Development Credit Bank Ltd.	8.71
Quess Corp Ltd.	7.55
Au Small Finance Bank Ltd.	6.71
Aegis Logistics Ltd.	6.44
Gabriel India Ltd.	5.90
TTK Prestige Ltd.	5.27
Mahanagar Gas Ltd.	5.09
Canfin Homes Ltd.	4.88
Alkem Laboratories Ltd.	4.76

Data as on 31st January 2018

Key Portfolio Analysis

Performance Data (Since Inception)	IOPS	Nifty Free Float Midcap 100
Standard Deviation (%)	15.25%	16.86%
Beta	0.74	1.00

Data as on 31st January 2018



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Risk Disclosure And Disclaimer

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